

Stages in the Evolution of Money:

(i) Animal Money:

In ancient India, Go-Dhan (cow wealth) was accepted as form of money. Similarly, in the fourth century B.C., the Roman State had officially recognized cow and sheep as money to collect fine and taxes.

(ii) Commodity Money:

The second stage in the evolution of money is the introduction of commodity money.

Commodity money is that money whose value comes from a commodity, out of which it is made. The commodities that were used as medium of exchange included cowrie shells, bows and arrows, gold, silver, food grains, large stones, decorated belts, cigarettes, copper, etc.

However, the commodity money had various drawbacks such as there could be no standardization of value for money, lacks the property of portability and indivisibility. Therefore this form of money became an unsuitable medium of exchange.

(iii) Coinage:

The next step is coinage. This is just like a commodity money but the commodity is the metal that the money is made of. Thus, it can be seen that commodity money is of two types i.e., metallic and non-metallic.

Metallic money at one stage were used as full bodied money, i.e., the full value was equal to the intrinsic value of the metal.

Non-metallic commodity money was used on a large scale in our early days of civilization.

(iv) Paper Money:

The next important stage in the evolution of money is the paper money which replaced the metallic money. The transfer of sum of money in terms of metallic money was both inconvenient and risky. Therefore, written documents were used as temporary substitutes for money. Any person could deposit money with a wealthy merchant or a goldsmith and get a receipt for the deposit.

(v) Bank Money:

As the volume of transactions increased, paper money started becoming inconvenient because of time involved in its counting and space required for its safe-keeping. This led to the introduction of bank money (or credit money).

Bank money implies demand deposits with banks which are withdraw able through cheques, drafts, etc. Cheques are widely accepted these days particularly for business transactions. Debit and credit cards also fall under this category.